GODDARD PERRY
CONSULTING

Hot topics in Pensions

Spring 2017

1. How the Regulator will make you a 21st century trustee

Pensions are changing. All this change demands something new: a new style of trustee. The Regulator has now explained how it intends to promote this new style in the response to its discussion paper "21st Century Trusteeship and Governance". The Regulator is serious about improving scheme governance: "it is unacceptable that some members are at greater risk of poor outcomes in later life purely because they happen to have been employed by an employer with a poorly run pension scheme".
Sponsoring employers should take note: you too have an interest in checking that your schemes' trustee boards are up to scratch. Good governance has been shown to produce results. Research referred to by the Regulator indicates that governance improvements can lead to "at least 1-2% additional return".

2. Tougher action

The Regulator has promised to get tougher: appointing good trustees and removing bad ones, forcing trustees to do things by issuing improvement notices, and imposing fines.
But how is the Regulator to know when trustees aren't meeting the required standards? Up until now the Regulator has taken two distinct approaches. For defined benefit (DB) schemes it has relied on scheme valuations and recovery plans, and notifications of significant changes to the employer's covenant. If there is enough money being pumped in and the source of that money has remained stable, the Regulator has generally been relaxed. For defined contribution (DC) schemes, funding isn't an issue. Instead, the regulator calls for an annual governance statement from the chair of trustees. That forces trustee boards to think about governance – and the Regulator is likely to impose something similar on DB schemes too.

3. Higher standards

Many commentators had expected the Regulator to introduce mandatory qualifications for trustees. But it has chosen to hold off for the time being. This doesn't mean the Regulator has failed to recognise the importance of getting the right people on the trustee board. An effective scheme requires people with the right skills: it isn't just about structures and processes. The Regulator has promised to explain what higher standards it expects of professional trustees, and what specific skills it expects from chairs of trustee boards.

The main themes of the Regulator's drive for higher standards featured in the know-how guides for DC schemes. Trustees of DB schemes will be asked to focus on these same themes:

- board competence (with greater focus on skills), including recruitment and succession planning, skills and knowledge assessments, performance reviews, action plans and ongoing training and development;
- clear roles, responsibilities and accountabilities of key scheme participants (chairs, professional trustees, other trustees, scheme managers, pension board members, scheme secretaries, employers, advisers, service providers etc);
- effective governance structures and decision-making processes;
- effective business planning.

4. Consolidation

The Regulator will encourage trustees of poorly run schemes (especially small DC schemes) to consider whether consolidation with another scheme might be beneficial for members. The purported benefits of consolidation are nothing new, and the Work and Pensions Select Committee has picked up on the same theme with gusto in its Report on DB schemes. The Regulator intends to work with the Department for Work and Pensions and the pensions industry to make consolidation easier. But full scheme consolidation will never be an easy option for DB schemes. There are a number of alternatives, such as shared service platforms, common investment funds and consolidated trustee boards, which may provide some of the benefits at a fraction of the cost of a scheme merger.

5. Targeted education

From spring 2017 the Regulator will start implementing its targeted education programme to raise the standards of poor trustees. As part of this, the Regulator will publish in the first part of 2017 detailed new guidance on good investment governance. After that, we should expect the Regulator's website to be a continual source of ever more checklists, templates, best practice examples and case studies. In order to cope with all this, the Regulator promises to streamline and improve its website, and consolidate some of the guidance already produced. It will be quite a task to make sure the target audience ("poor trustees") are easily able to identify the things that will help out most.

There will be something for pension schemes of all shapes and sizes. Although trustees of small schemes may face particular challenges, larger schemes will have something new to think about. The Regulator will be focussing particularly on what chairs and professional trustees can do to improve scheme governance.
Precisely what is expected will become clear during 2017. That does not mean trustees should hold back now on reviewing their governance arrangements. The Regulator has already come up with a number of practical ideas which can be reviewed as part of the next Trustees' meeting .

Where can I get further information?

Please contact your Goddard Perry consultant if you would like to discuss the issues raised by this update in more detail. Alternatively contact us via the following:

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